

# **EMPLOYEE HANDOUT/INFORMATION SHEET**

## **INFORMATION FOR PROSPECTIVE RETIREES**

Fax-Back #265

**COMMENCEMENT DATE OF ANNUITY:** If you retire voluntarily under the Civil Service Retirement System (CSRS), you can set your retirement date for the first, second, or third day of the month, and your annuity begins to accrue the following day. For example, assuming your retirement is effective April 3rd, your annuity will begin to accrue April 4<sup>th</sup> to April 30<sup>th</sup>, to be paid May 1. If you retire voluntarily on the fourth day or after, you will not begin to accrue an annuity until the following month. If you retire under the Federal Employee's Retirement System (FERS) your annuity will begin to accrue the first day of the following month that you retired. For FERS, if you were to retire on April 1, you will not start to accrue an annuity until May 1, to be paid June 1. However, if you set your retirement date on March 30<sup>th</sup>, your annuity will begin to accrue on April 1, to be paid May 1.

**INCOME TAX:** Some consideration should be taken if you will, upon retirement, be receiving a large lump-sum payment for annual leave. Taxes are applied to lump-sum payments in the year in which you receive the money. Example: An employee retiring September 30 could incur a larger tax burden by collecting almost a full year's salary plus a large lump-sum payment for unused annual leave. Information about the taxation of your annuity is explained in IRS Publication 721, which may be obtained free by calling 1-800-TAX-FORM.

**ANNUAL LEAVE:** The lump sum leave is based on the rate of pay you receive at the time of separation. You are also entitled to an adjustment to your lump sum leave payment whenever the law changes your pay you would have received during your projected leave period. For example: if the pay adjustment were effective January 2nd, projected leave on and after that date would be paid at the higher rate. Deductions of Social Security (if applicable), Medicare, Federal, and State tax will be taken out.

**LEAVE ACCRUALS:** Leave can only be earned during complete pay periods (when you have completed your scheduled tour of duty). Retiring on any day of a pay period will prevent you from earning leave for that pay period. Thus, your lump-sum payment could be less than you had anticipated.

**CREDIT FOR SICK LEAVE:** Under CSRS, the total creditable civilian and military service combined with credit for sick leave, is used in computing the annuity payments. The total is then rounded down to include full years and full months (excluding the days). For example, an employee with 30 years, 6 months, 28 days of service can increase the total service to 30 years, 7 months by delaying the retirement date by two days (30 days equals one month). However, we advise that you consider all aspects closely, keeping in mind that the Office of Personnel Management (OPM)

computes your official length of service. In most cases, one month of service increases your annuity by one-sixth of one percent of the high-three average salary. If you elected FERS, you will receive credit for sick leave in your CSRS portion of the annuity computation, based on the lesser of (1) the amount of sick leave at the time of retirement or (2) the amount of sick leave when FERS was elected.

**COST-OF-LIVING ADJUSTMENT (COLA):** For CSRS retirees, the first COLA is prorated by using the following formula:

$$\frac{\text{COLA rate}}{12} \times \text{Number of months on annuity roll} = \text{Prorated COLA}$$

FERS retirees do not receive a COLA until age 62, unless retired under special provisions (such as, law enforcement, firefighter, etc). If retired prior to age 62, the first cost-of-living adjustment will not be prorated if you reach your 62<sup>nd</sup> birthday before December 1. The increase is normally 1% less than the increase in the consumer price index as determined by law.

### **LIFE INSURANCE:**

Basic Insurance: Life insurance coverage can be transferred into retirement if you have had coverage since the first opportunity to enroll or for five continuous years immediately preceding the date of your retirement. You must continue your Basic Life insurance in order to keep any of the Optional coverage. Unless you choose otherwise, your Basic Life will begin to reduce at the end of the month after the month that you reach age 65 (or when you retire, if later). As a retiree, you will have three options:

- (1) 75% Reduction: Cost before age 65 = \$.3250 per \$1,000 of Basic Insurance Amount (BIA); after age 65 = \$0. The amount of your insurance reduces 2% per month after age 65 to a minimum 25% of your BIA.
- (2) 50% Reduction: Cost before age 65 = \$.9250 per \$1,000 of BIA; after age 65 = \$.60 per \$1,000. The amount of your insurance reduces 1% per month after age 65 to a minimum of 50% of your BIA.
- (3) No Reduction: Cost before age 65 = \$2.159 per \$1,000 of BIA; after age 65 = \$1.83 per \$1,000. The amount of your insurance will equal 100% of your BIA and is retained after age 65.

Optional Insurance: You will pay the full cost to continue any of the following Optional insurance.

- (A) Standard: Effective at the end of the month after the month that you become age 65, this option will reduce by 2% of the pre-retirement amount per month until it reaches 25% of the pre-retirement amount. After age 65, no premiums are withheld.
- (B) Additional: You may elect either full reduction or no reduction. If you elect full reduction, until you reach age 65, premiums (based on age) will be withheld from your annuity at the same rate as active employees. After age 65, there is no cost, but the insurance value begins to reduce 2% per month until coverage is reduced to zero. If you elect no reduction, you will continue to pay premiums at the same rate as active employees and you will retain the full amount of your Option B Additional Insurance.

- (C) **Family:** You may elect either full reduction or no reduction. If you elect full reduction, until you reach age 65, premiums (based on age) will be withheld from your annuity at the same rate as active employees. After age 65, there is no cost, but the insurance value begins to reduce 2% per month until coverage is reduced to zero. If you elect no reduction, you will continue to pay premiums at the same rate as active employees and you will retain the full amount of your Option C Family insurance.

**HEALTH INSURANCE:** Health insurance continues if you have been covered since first eligible or for five continuous years immediately prior to the date of your retirement. The cost will remain the same as if you were a current employee. You will still be entitled to the same privileges as a current employee in making changes during open season and other changes that occur. The Office of Personnel Management will notify you of the open season periods. If you are not in receipt of cash benefits from Social Security, at age 65 you must register for Medicare by contacting your local Social Security office. During retirement, Medicare becomes the primary payer at age 65 and FEHB is secondary. Even though Medicare becomes primary, it may be to your benefit to keep your FEHB coverage. Your spouse is eligible to continue FEHB coverage after your death only if you have self and family coverage and you elect to provide a survivor annuity at the time of retirement.

**THRIFT SAVINGS PLAN (TSP):** If you are enrolled in TSP when you retire, you will be given information about the options available. Your options include withdrawing all of your money in a lump sum; elect equal payments; elect an annuity; roll the money over into an IRA; or leaving the money in your TSP account. Upon your retirement, forms will be given to you, on which you should indicate your decisions. If you decide to leave your money in the account, you can no longer make contributions, but your account will continue to draw interest. However, you will need to begin receiving payments by a certain date, which is April 1st of the year following the year in which you turn age 70 1/2. At that time, you must begin receiving payments from your TSP account. Ensure that the TSP Service Office always has your current address. You will still receive your Participant Statement, which will provide account information and fund performance. There are other changes coming to the TSP program, such as the mixed withdrawal options, which will be available when the new computer system is in place. Read the TSP Highlights for up-to-date information.

**PAYMENT SCHEDULE/INTERIM PAY:** You should receive your last paycheck on the normal schedule. After OPM has received your retirement papers, you should receive an interim payment equal to approximately 75% to 80% of your full annuity. This process should take about 8 weeks following your retirement date. During the interim pay period, no deductions will be taken for health or life insurance. The interim payment schedule will continue until all records have been verified by OPM. At that time, you will receive a full annuity check including any additional back pay lost during the interim pay cycle minus FEHB, FEGLI, and other appropriate deductions.

**PERMANENT ADDRESS:** Many people move after retirement. When completing the retirement application, the address should be the one the payroll has for you. If that address is changing due to a move, change the address with payroll.

**DIRECT DEPOSIT:** When your records are transferred to OPM, current allotments will stop. The electronic funds transfer information will flow to OPM from payroll and will be used by OPM to send your retirement annuity. If you choose not to receive your checks through direct deposit, you may request in writing, to have your payments mailed to you in the form of a check.

**TAX WITHHOLDING:** The OPM has agreements with some states to allow the withholding of state income taxes from annuity payments. Contact OPM for additional information. Federal income tax will be withheld at the same rate you had established with payroll.

**PROCESSING YOUR RETIREMENT APPLICATION:** You will be required to complete a retirement application and other forms and documents. Your servicing personnel office will review your application, verify your service record, and forward the package to the servicing payroll office. Your retirement record card, which reflects your pay and retirement history, are added to the package and forwarded to OPM. The OPM Retirement Operations Center at Boyers, PA reviews the application package and assembles the information into a retirement file. If your entitlement to an annuity is clear, OPM will normally authorize recurring interim annuity payments to provide you with income until your claim is completed. Interim payments are generally authorized within 8 to 10 days after OPM receives the retirement package. Check with your personnel office retirement counselor to find out how long it typically takes for your retirement package to reach OPM. You should receive your first interim payment within 2 to 3 weeks after OPM has received the retirement package. You will be assigned a Civil Service Annuity (CSA) number by OPM. You must use this number when corresponding with or calling OPM.

**CONTACTING OPM:** Once you receive your CSA number, you may contact OPM by calling their Retirement Information Office at either the nationwide toll-free number, 1-888 US OPM RET (1-888-767-6738) or, for customers within the Washington, DC calling area, (202) 606-0500, or for hearing impaired customers, 1-800-878-5707 (TDD). When you call, you can use the automated phone system, which is available 24 hours a day, seven days a week, or talk to a Customer Service Specialist from 7:30 a.m. to 5:30 p.m. Eastern time, Monday through Friday.

To use the automated phone system's features, you will need your CSA number and your Personal Identification Number (PIN). After OPM completes processing your retirement, they will send you a PIN. You can also obtain a PIN by calling a Customer Service Specialist, who will arrange to have a PIN mailed to you.

Some of the things you can do by using the automated system include:

- Report a missing payment
- Change your address
- Change Federal and state income tax withholding amounts
- Request verification of your income
- Request the current value of your life insurance
- Request verification of the survivor benefits you are providing
- Request retirement forms and brochures

OPM is continuing to add features to the automated system to permit you to take actions yourself. The automated features are not available if you call OPM on a rotary telephone. You would need to speak to a Customer Service Specialist. You can also contact OPM on the Internet at <http://www.opm.gov/retire/> to obtain retirement information, forms, and brochures, and to report a missing payment or the death of an annuitant.

If you need to write to OPM, the mailing address for general correspondence is:

U.S. Office of Personnel Management  
Retirement Operations Center  
Post Office Box 45  
Boyers, Pennsylvania 16017-0045